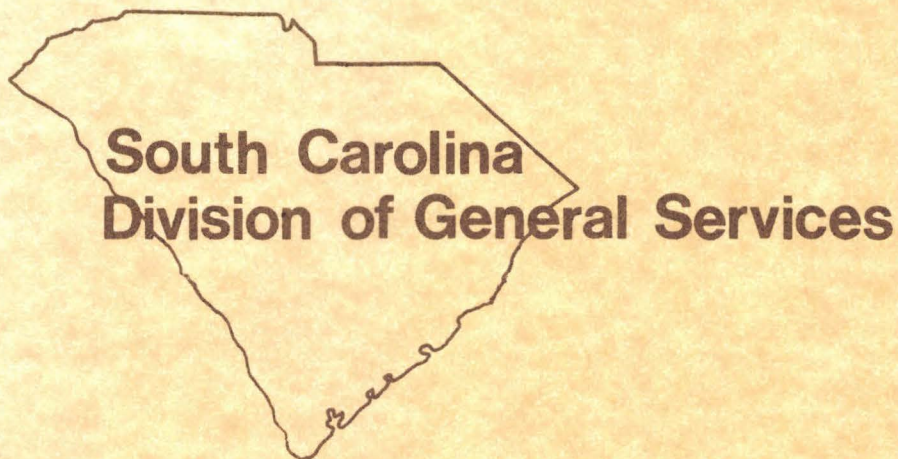


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PROCUREMENT AUDIT AND CERTIFICATION

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COLLEGE OF CHARLESTON

AGENCY

FEBRUARY 16, 1984

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
800 DUTCH SQUARE BLVD., SUITE 150
COLUMBIA, S.C. 29210
(803) 758-6060



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CHAIRMAN
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM I. PUTNAM
EXECUTIVE DIRECTOR

RICHARD J. CAMPBELL
ASSISTANT DIVISION DIRECTOR

February 16, 1984

Mr. Tony Ellis, Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final College of Charleston audit report and recommendations made by the Materials Management Office. I recommend that the Budget and Control Board grant certification limits of \$10,000 per purchase commitment for goods and services, exclusive of printing equipment which must be approved by the Materials Management Office, and consulting services for a period of two (2) years.

Certification in the area of Information Technology and Construction and related services shall be deferred until statewide procedures governing these areas are finalized.

Respectfully,

Richard J. Campbell
Materials Management Officer

RJC/ra

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property Supply, Warehousing & IMS
Boston Avenue 1942 Laurel Street
W. Colo., S.C. 29169 Colo., S.C. 29201
758-2626 758-3246

Training & Research
300 Gervais Street
Annex 3
Columbia, S.C. 29201
758-5051

State Procurements
800 Dutch Sq. Blvd.
Suite 250
Columbia, S.C. 29210
758-6050

Information Technology Management Office
800 Dutch Sq. Blvd.
Suite 150
Columbia, S.C. 29210
758-6060

Installation Purchase Contract
800 Dutch Sq. Blvd.
Suite 150
Columbia, S.C. 29210
758-6060

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STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
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TONY ELLIS

REMBERT C. DENNIS
CHAIRMAN,
SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTNAM
EXECUTIVE DIRECTOR

April 13, 1983

Mr. Richard J. Campbell
Acting Materials Management Officer
Columbia, South Carolina

We have examined the procurement policies and procedures of the College of Charleston for the period July 31, 1981 - September 15, 1982. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and College of Charleston procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of the College of Charleston is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the

integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the College of Charleston in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Barbara A. McMillan, Director
Contracts and Audit Management

INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the College of Charleston.

Our on-site review was conducted October 4 through October 27, 1982, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

On July 1, 1982, the College of Charleston requested certification to make direct agency procurements, in accordance with the Code, up to \$10,000 in all four procurement areas.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the College of Charleston and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 1, 1981 - September 15, 1982, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and ensuing regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selection;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;

(10) warehousing, inventory and disposition of surplus property;
and

(11) economy and efficiency of the procurement process.

At the date of this report, neither the state plan nor the College's plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.

SUMMARY OF AUDIT FINDINGS

Our examination of the procurement system of the College of Charleston produced findings and recommendations in the following areas:

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A. Direct Expenditure Vouchers	10
At the College of Charleston's request, we advised them on the controls necessary in a direct expenditure voucher system.	
B. Information Technology Master Plan	12
The College of Charleston has not submitted its Information Technology Master Plan.	
II. GENERAL TRANSACTION CONTROL	12
A. Cash Discounts	12
At least one cash discount was not being taken by the Accounts Payable Department.	
B. Student Activity Fees	14
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A. Non-Competitive Procurements	15
The College of Charleston made procurements in excess of \$500 without competition nor a sole source justification.	
B. 1. Improper Use of Emergency Purchase Designation	17
The College designated some procurements as emergency purchases improperly.	
2. Inappropriate Use of Emergency Justifications	19
The College classified several purchases as emergency procurements on the basis that it was an emergency to ensure funds were expended prior to the end of the fiscal period.	
C. Improper Sole Source Reporting	19
The College of Charleston designated some procurements as sole source improperly and inaccurately.	
D. Construction	20
The College of Charleston procured moveable equipment for Permanent Improvement Projects without notifying the State Engineer in writing as required by the Code.	
IV. SUPPLY AND PROPERTY MANAGEMENT	21
A. Central Stores	21
The effectiveness and efficiency of the Central Stores function is reduced due to	

weak inventory controls. Additionally, some departments use the College Bookstore to procure supplies rather than Central Stores.

B. Surplus Property Proceeds 24

Proceeds from the sale of surplus property are being included in an unrestricted account making it difficult to determine if they were expended for like items as required under the Code.

C. Property Held for Future Use 25

The College should inform departments on a systematic basis of property stored and available for return to service.

V. PRINT SHOP ANALYSIS 26

As part of our examination, the State Printing Officer attempted to conduct an analysis of equipment and manpower utilization at the College of Charleston.

VI. FISCAL ACCOUNTABILITY ACT 29

Due in part to a lack of clarification state-wide, the College of Charleston is not in compliance with the reporting requirements of the Fiscal Accountability Act.

VII. REVIEW OF THE INTERNAL PROCEDURES MANUAL 31

Additional policies should be documented in the Procurement Procedures Manual before final approval can be granted.

RESULTS OF EXAMINATION

I. AUTHORITY AND RESPONSIBILITY

A. Direct Expenditure Vouchers

Our regular audit procedures include a review of any existing direct procurement systems or an analysis of the need therefor in each agency. The College of Charleston recognized the benefits of such a system and requested that we specifically comment on the necessary internal controls that should exist in implementing a direct expenditure system.

In our experience the agencies that use such systems design them to allow individual departments to make small purchase transactions without the direct use of the purchasing department.

Direct expenditure vouchers do not require that a purchase order be prepared to support the disbursement. Thus the proper use of this system can facilitate decreased paperwork and turnaround time for small orders, while maintaining adequate control over the procurement function. The reduction of paperwork and "red tape" reduces the cost of processing purchase orders and results in a measurable cost savings to the procurement section, effectively increasing economy and efficiency.

The direct expenditure voucher, further, is designed for handling and authorizing nominal procurements of supplies and services not available through central stockrooms. Responsibility for compliance

with state policies for the use of the direct expenditure voucher must rest with the user department to be completely effective.

Predicated on the College of Charleston's implementation of a direct expenditure system, we would recommend the following:

- (1) Definite dollar limits be established for use of direct vouchers.
- (2) Items such as the following could be procured efficiently in this manner without consideration of a dollar limitation:
 - (a) Oil company credit card charges for gas, oil and jet fuel;
 - (b) Heat, light and water bills;
 - (c) Telephone and telegraph bills;
 - (d) U.S. Post Office box rentals and postage;
 - (e) Freight and express bills;
 - (f) Contributions, dues and registration fees;
 - (g) Sales tax paid to the South Carolina Tax Commission;
 - (h) Auto licenses and registrations;
 - (i) Equipment repairs (not to exceed \$500).
- (3) A Purchase Method Determination approved by the Purchasing Department be attached prior to processing to Accounts Payable. This allows Purchasing to monitor the activity for compliance to the College policies and the Code and strengthens internal control.

- (4) Accounts Payable be responsible for matching invoices to direct vouchers, verification of approvals, classification and funding codes.

With a properly controlled direct expenditure system, we feel the cost savings and reduction of clerical workload benefits for the Purchasing Department would be significant.

B. Information Technology Master Plan

Our examination revealed the College of Charleston has neglected to submit an Information Technology Master Plan as required by Regulation 19-445.2115.

The Information Technology Planning Office requested that plans be submitted by September 30, 1982.

We recommend that the appropriate officials prepare and submit such a plan to the Information Technology Planning Office, 1203 Gervais Street, Columbia, South Carolina, 29201, as soon as possible.

II. GENERAL TRANSACTION CONTROL

A. Cash Discounts

Our testing revealed that the Accounts Payable Department has neglected to take an allowable cash discount for timely payment as authorized by a contract in one instance.

The contract reviewed entitles the College to a 5% discount when payment is made within 30 days.

We determined that the College had lost as much as \$1,799 in allowable discounts over the life of the contract.

Section 11-35-20(F) of the Code states as one of its purposes:

to provide increased economy in state procurements
and to maximize to the fullest extent practicable
the purchasing values of the funds of the State.

Because the Accounts Payable Department apparently did not review contractual conditions for timely payment clearly stated in the contract and on the purchase order, the College expended funds in an unnecessary manner by way of discounts lost.

Additionally, since State Procurements awarded this contract, cash discounts were considered as cost reductions in the award process since the time frame was 30 days for timely payment.

If, after the fact, such discounts are lost, the integrity of the competitive process could become undermined.

We recommend that a copy of the purchase order which clearly states discount terms be included in all voucher packages that reference a purchase order number, or a copy of all existing agency contracts be placed on file in Accounts Payable for review as monthly payments become due.

This would enable the Accounts Payable Department to match invoice payments to cash discount terms.

Before leaving the audit site, this finding was discussed with the Controller and corrective action was implemented for future payments.

It was also suggested he ask for a refund of prior overpayments from the vendor.

B. Student Activity Fees

Our examination included a test of student activity procurements in order to determine their exempt status under the Code.

Our understanding of the provisions of the Code in this area is that funds derived from events sponsored by student organizations that generate revenue are exempt from the Code. Also, contributions by students in support of their organizations would be a source of funds from which expenditures could be made apart from the procurement requirements of the Code.

On the other hand, contributions by an institution of higher learning made from academic fees in support of student organizations places the activities in a condition of not being wholly self-controlled and/or the funds self-derived.

The College of Charleston allocates a portion of academic fees to support its student organizations.

As a result, procurements made from such funds, we believe, should be in compliance with the Code.

Since the College of Charleston requires a purchase order for all procurements, the Purchasing Department has an opportunity to monitor student activity purchases for compliance. We recommend continuance of this function.

However, if the College of Charleston desires to place student activities on an exempt basis under the Code, we recommend that student activity fees be established and identified on the tuition statement. The College, as a trustee for the students, could then collect these funds and distribute them to the Council on Student Government who would further distribute them to each specific student organization.

We feel this would clearly establish that the source of funding for these activities is student contributions, wholly self generated and controlled and exempt from the Code.

III. CODE COMPLIANCE

A. Non-Competitive Procurements

Within a random sample of sixty transactions in the area of goods and services we found that the following purchases were not made in compliance with the Code:

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>AUTHORIZATION</u>
1. Band for Street Dance	\$1,000	Direct Expenditure Voucher
2. Slip Rental-Sailing Team	\$1,560	Direct Expenditure Voucher
3. Service to Bus	\$1,582	Direct Expenditure Voucher
4. Service for Student Loan Program	\$829	Direct Expenditure Voucher

The above procurements were made without regard to the competitive source selection process, nor were they justified as sole source or emergency purchases. Discussions with College of Charleston officials

revealed that they felt the above items to be exempted, particularly items 1 & 2.

Regulation 19-445.2100, Subsection B, Items 2 and 3 state in part:

Purchases from \$500.01 to \$1499.99. Solicitations of verbal or written quotes from two qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the requisition.

Also,

Purchases from \$1500.00 to \$2499.99. Solicitation of written quotations from three qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the purchase requisition. When prices are solicited by telephone, the vendors shall be requested to furnish written evidence of their quotation.

Additionally, Section 11-35-1560 of the Code states:

A contract may be awarded for a supply, service or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer above the level of the procurement officer determines in writing that there is only one source for the required supply, service or construction item.

While the Purchasing Department has an internal procedures manual, it does not state how procurements at different dollar levels should be handled. Additionally, as indicated in Finding I-A, there have been no specific written guidelines for the proper use of direct expenditure vouchers.

Partially as a result of this lack of written procedures, the College of Charleston is not in compliance with the Code on these pro-

curements. Of further consequence, our test indicates with a 95% confidence level that as many as 16% of all transactions for goods and services may be affected by this condition.

We, therefore, recommend the following:

- (1) The dollar limits and source selection process be addressed in the Procedures Manual.
- (2) That explicit policies be established regarding the use of direct expenditure voucher (Item I-A) that will adhere to good internal control.
- (3) That all departments be fully informed of all procurement policies and procedures and that these policies and procedures be strictly enforced.

B. 1. Improper Use of Emergency Purchase Designation

Our review of emergency purchases reported to our office indicated that a number of the procurements were made and justified in a manner that appears not to follow the intent of the Code and Regulations.

These are as follows:

- | | |
|--|------------|
| (1) Services to clean and paint cooling towers | \$5,937.00 |
| (2) Services to convert copy equipment area | \$4,812.00 |
| (3) Services to re-roof building | \$3,370.00 |
| (4) Services to remove tin and slate on a roof | \$5,270.00 |
| (5) Perma walk rubber matting | \$2,732.18 |
| (6) Purchase of twin sheets | \$2,620.80 |

These procurements were made after obtaining competitive quotes, but justified as emergency purchases on the basis that "sealed bids were secured but came in above the \$2500 limit." These justifications were prepared and the purchases made in lieu of the requirement to send these to State Procurements as indicated in Regulation 19-445.2000(C).

It should be further noted that several of the above items were not procured by the sealed bidding method as stated in the justification.

The College feels that the lack of sufficient time to transmit the procurement to State Procurements for proper bidding is sufficient justification for an emergency. This condition is similar to the example used in Regulation 19-445.2110(F) for using an emergency determination after unsuccessful competitive sealed bidding.

We believe that the approximate dollar amount of procurements such as these could be estimated without taking time to obtain formal written quotes at the agency level. If it appeared that the procurement was going to be above the College's certification level, the requisition could be sent to State Procurements in time to allow them to procure the item properly.

We, therefore, recommend the following:

- (1) That the President, by administrative directive, notify all department heads of the importance of lead time in processing requisitions and the impact this has on meeting their needs in a timely manner.
- (2) That the Vice President of Finance study closely all future emergency justifications to ensure that they meet the requirements of Regulation 19-445.2110(B).

B. 2. Inappropriate Use of Emergency Justifications

Our examination revealed at least six emergency procurements totaling \$32,000 were justified on the basis that if the purchases were not made, received and paid for prior to year end the funds would have to be returned to the State's General Fund.

Loss of appropriated funds we do not believe is a criteria for the determination to use emergency procurement procedures.

In addition, the above six procurements were for equipment items, the purchase of which had been frozen by the Budget and Control Board at that time.

Due apparently to a lack of planning and scheduling and/or prudent budgetary management, the College placed itself in what we believe to be a totally indefensible position by purchasing these items.

In addition to the recommendations found in B-1 above, we insist that the College exercise its energies to comply with the Appropriations Act and the Procurement Code and its regulations. Higher certification limits cannot be considered until assurance is given that these transactions are isolated events and that similar purchases will not be permitted by College management in the future.

C. Improper Sole Source Reporting

Our examination included a review of sole source procurements for the propriety of the procurement action taken and the accuracy in reporting to the Materials Management Office.

We encountered the following problems:

- (1) One transaction did not include the department head's signature on the determination. This is not in accordance with the College's internal procedures.
- (2) Several transactions were justified under the signature of the procurement officer which is contrary to Regulation 19-445.2110 and the College's internal procedures.
- (3) A stress testing machine was purchased for \$5,626.40, but should have been forwarded to State Procurements for bidding among dealers as it appears to be an open line commodity.

Due to lack of written procedures, these procurements are not in compliance with the Code and the regulations.

We recommend that the College adhere strictly to the policies and procedures outlined in its Internal Purchasing Manual. Such action, we feel, would place the College in compliance with the Code which is, of course, required regardless of certification levels.

D. Construction

Our examination of the construction file for the Women's Dormitory Project revealed two procurements made without E-7 notification.

- (1) 28 vacuum cleaners
- (2) Bunk beds

The State Budget and Control Board is directed by law to assume general supervision over all expenditures for Permanent Improvements by

State Agencies. The procedure required in this case is the use of the Board's E-7, Equipment List, prior to the owner's request to execute a contract.

The College of Charleston neglected to follow this procedure and therefore these procurements were made without the Board's knowledge or approval.

We recommend that the Purchasing Director institute sufficient controls to ensure that all moveable equipment purchased with permanent improvements funds are supported by the E-7 as required by the Board.

IV. SUPPLY AND PROPERTY MANAGEMENT

A. Central Stores

Our examination included a test of the effectiveness and efficiency of the Central Stores operation. These tests produced the following results:

(1) Inventory turnover test by item -

A sample of 60 items from a total of 472 catalogued revealed that 30 items turned in excess of one year. Projecting this to the entire item population indicates a 95% confidence level that at least 38% or 180 items in inventory are not turning over within a year.

(2) Inventory turnover test by dollar amounts -

Issues for fiscal year 81/82	\$171,665
Divided by markup over cost + 100%	<u>110%</u>
Cost of goods issued	\$156,060
Divided by June 30, 1982 inventory	<u>118,392</u>
Annual Inventory Turnover	1.32 times

Central Stores was established to consolidate purchases of commonly used items to increase economy and efficiency in the procurement process. Generally it is more economical to buy high usage items in large quantities, warehouse them and fill small orders from warehouse stock rather than making many small purchases of the same items.

However, there are costs involved in a warehousing operation such as personal service, utilities, equipment repair and other overhead costs. The cost of operating a central warehouse must be weighed against the cost savings it provides.

In seeking to understand the cause of the slow inventory turnover, we determined the following:

- (1) The inventory control management system is on a manual system. Reorders are entered based on periodic physical inventory of the items and/or the visual method. While receipts are recorded manually on a card file, issues are not. New items are added basically at departmental request.

The College of Charleston is aware that this method is not adequate, but feels the costs involved in implementing a more sophisticated system would be far greater than the benefits received.

- (2) Our tests in the Bookstore revealed that the departments are purchasing items from this auxiliary that are stocked in Central Stores. We estimate this to be approximately \$10-12,000 annually. This activity obviously reduces the effectiveness and efficiency of the Central Stores function.

Of further consequence, we believe that the Bookstore, in deviating from its student auxiliary function, loses its exemption in the procurement of supplies intended for college use and is thereby out of compliance with the Code.

Finally, prices paid by departments to the Bookstore are in excess of those charged by Central Stores.

As a result, the funds expended by the College of Charleston for the Central Stores function are not maximizing the purchasing values of the State.

We, therefore, recommend the following:

- (1) The Assistant Vice President of Purchasing should conduct a study of the Central Stores inventory with a view toward isolating obsolete or slow moving items. These could then be made available to the departments or other agencies on a closeout basis or declared surplus and disposed of accordingly.
- (2) In light of the plans to implement an on-line property management system, we recommend a cost/benefits analysis be done of Central Stores inventory control with a view

toward establishing a perpetual system. It appears to be an appropriate time to "piggyback" an adequate control system at minimal cost. This would greatly enhance the College of Charleston's ability to plan, consolidate and schedule purchases and control the Central Stores function.

- (3) The President should issue an administrative directive to all department heads requiring that all supplies stocked by Central Stores be purchased from that source.
- (4) The Assistant Vice President of Purchasing should conduct a study of the Bookstore requisitions for the past fiscal year in order to determine if most requested items supplied by the Bookstore could be stocked at Central Stores. This would remove any possible loss of Code exemption by the Bookstore in its procurement procedures.

B. Surplus Property Proceeds

Our examination included a review of the sale of surplus property files. In this review, we found that the proceeds from certain sales were credited to an unrestricted miscellaneous revenue account making it difficult to ensure that these funds would be expended for like items.

Regulation 19-445.2150, Subsection E, specifically restricts the use of proceeds as a result of such sales.

We recommend the Controller establish a "proceeds from the sale of surplus property account" to better ensure that such funds will be expended for like items as required.

C. Property Held for Future Use

Our examination of property management revealed that departmental assets stored for future use in the central warehouse are accounted for by reclassifying them to equipment account #4000. A report is issued monthly to Purchasing sorting equipment by account classification.

When departmental equipment needs arise, the requestor calls Central Stores to determine if an item is in storage prior to purchasing a new item.

We believe relying completely on the departments to initiate the inquiry to return equipment to agency use may not be the most efficient method to maximize utilization of the assets.

Prudent property management suggests that potential users be notified on a systematic basis of excess property stored and available for use.

Absence of such a procedure could result in:

- (1) Departments entering requisitions for new items that are available from storage.
- (2) Departmental needs not being met due to budgetary restrictions when the asset may be available from storage.

Since a report is readily available detailing excess property held for future use, we recommend that Purchasing make these available to all departments on at least a quarterly basis. We believe the additional cost would be minimal when compared to the benefits derived from increased equipment utilization.

V. PRINT SHOP ANALYSIS

As part of our examination, we requested the State Printing Officer evaluate the equipment utilization of the College of Charleston's Print Shop. The following is his report:

EQUIPMENT AND MANPOWER UTILIZATION ANALYSIS

Standards for evaluating equipment and manpower utilization in agency printing facilities were established by the Legislative Audit Council in 1978 and the State Printing Manager. The basis of this analysis is predicated upon production records kept in the printing environment. The records should address specifically the number of impressions reproduced on each piece of equipment. An impression is defined as a sheet of paper, (irrespective of sheet size) passing through the equipment one time. The purpose of this analysis is to help Print Shop Managers evaluate equipment and personnel requirements, establish goals for equipment operators, and provide information relative to production standards being established in all state printing facilities. An underlying benefit of this analysis is providing the Print Shop Manager information necessary to compare equipment and manpower utilization in his operation against others in the State.

Currently the Print Shop Manager at the College of Charleston is not keeping records germane to the number of impressions being reproduced on each piece of equipment in use. The Print Shop Manager has been apprised of the reasons records are required and agrees with the

criteria for establishing production standards. By request of the State Printing Manager, records relative to impressions per machine will be kept beginning December 1, 1982.

A minimum standard for use levels has been developed by allowing three and one-half ($3\frac{1}{2}$) hours out of each seven and one-half ($7\frac{1}{2}$) hour working day to be used for job set-up time, clean-up time, routine maintenance, breaks and miscellaneous down time. The number of hours equipment is available for operation annually is the same number of hours an operator would be on the job.

	<u>HOURS</u>
37½ hours straight time per week times 52 weeks. =	1,950
Less: 15 days annual leave..... =	112.5
15 days sick leave..... =	112.5
11 holidays..... =	<u>82.5</u>
	307.5
1950 hours available minus 307.5 hours =	1642.5 hours
1642.5 hours divided by 7.5 hours =	219 days

Utilizing the production standards mentioned, 100% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.

In this analysis, each piece of equipment will be evaluated individually and a percentage of utilization calculated. A collective utilization will also be calculated based on all equipment available for production. Man hours will be analyzed using basically the same criteria established for evaluating equipment utilization. The percentage of man

hours utilized out of the working hours available will indicate the overall efficiency of the College of Charleston's Print Shop.

A percentage of utilization will be calculated on the following pieces of equipment:

A. Litho Press

1. Heidelberg KORD

This category of equipment is used primarily for quality printing requiring color and large sheet sizes, as well as long runs. A higher degree of skill is required to operate this equipment because of the emphasis placed on achieving high quality.

B. Duplicating

1. AB Dick 360 with Chain Delivery
2. AB Dick 360 with Sandman Envelope Feeder
3. AB Dick 360

C. Specialized Equipment

1. Chandler Price/Hand Feed - 10 X 15

This category of equipment is used primarily for all numbering applications.

Man hour utilization at the College of Charleston will be based on two fulltime equipment operators involved in all areas of reprographics.

However, the focus of this analysis will be directed primarily in the Litho and Duplicating categories.

At the end of the current fiscal year, production records should be available for a seven month period beginning December 1, 1982, and ending June 30, 1983. In the month of July, an analysis will be done in the College of Charleston's Print Shop based on the data compiled by the Print Shop Manager.

We would expect the College of Charleston to comply with these recommendations.

VI. FISCAL ACCOUNTABILITY ACT

Partially as a result of lack of clarification as to report procedures statewide, the College of Charleston has failed to comply with the requirements of the Fiscal Accountability Act (FAA) by not reporting all expenditures to the South Carolina Division of General Services as required. Examples are as follows:

- (1) Consultant and Contractual Services
- (2) Lease and Rental Agreements
- (3) Expenditures for Permanent Improvement Projects

Act 561 of 1976, Section 5, states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in

the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system.

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

Further examination discovered that no management effort is made to financially reconcile the procurement data to the external reporting process since the enactment of FAA. After the information is entered into the data base for FAA, the task is considered completed. Any change orders or alterations to the original are not entered into the same data base. Therefore, the total dollar amounts of procurements as finalized are inaccurately reported.

The General Assembly, without major additional effort, could not readily obtain the procurement activity of the College of Charleston as contemplated by the FAA.

Additionally, by not establishing FAA input as a reliable data base, the College has deprived itself of the internal fringe benefits that could result therefrom, such as,

- (1) Planning and scheduling acquisitions;
- (2) Consolidation of commodities for better prices;
- (3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;

(4) Evaluation of purchasing goals.

The Division of General Services is currently working with the Comptroller General's Office on proposals to make major revisions in the reporting requirements of the FAA in the near future. Because of the possibility of these major revisions, we cannot recommend that the College expend unnecessary time and money in effecting compliance with the law although we feel compelled to point out the lack of compliance, as we have at all other agencies audited to date.

VII. REVIEW OF THE INTERNAL PROCEDURES MANUAL

The College of Charleston has submitted to the Materials Management Office a copy of the Purchasing Department's manual entitled "Purchasing of Supplies, Services, and Equipment" (POSSE). The greater portion of this manual sets forth for the user departments procedures for obtaining goods and services through the College's central purchasing. These procedures are most helpful in directing the sections and/or departments in how to acquire goods and services.

However, our review of the manual indicates that the following areas need to be corrected in regards to the actual procedures under which the central buying offices operate.

- (1) Page 10 of POSSE states "anything costing over \$1500 must go to State Purchasing office for bid and award." Although an agency can be more restrictive than the Code, presently the College of Charleston is operating under the basis that items procured in excess of \$2,500 are

handled by State Procurements. Therefore, this amount should read \$2,500 or the certification limit granted by the Materials Management Office.

- (2) On Page 28, change \$50 to read \$200 on capital equipment that is to be inventoriable to reflect internal policy.

Additionally, for the benefit of those actually involved in the procurement process, their supervisors and outside regulatory agencies, the manual must address specific procedures regarding the following:

- (1) Minority Business and Information Technology Plan
- (2) Handling of Vendor Grievances
- (3) Handling of Department's Vendor Complaints
- (4) Receiving Procedures
- (5) Disposition of Goods (Surplus Property)
- (6) Property Control and/or Fixed Asset System
- (7) Small Purchases Less Than \$2,500 Methods
 - (a) telephone quotations
 - (b) written quotations
- (8) Accounting, Audit, and Legal
- (9) Leasing Real Property and Equipment
- (10) Confirmation Purchase Orders
- (11) Procedures for Quarterly Reporting Emergency, Sole Source and Trade-In Sales
- (12) Consultant Procurements
- (13) Information Technology Procurements
- (14) Construction Procedures

- (15) Agency Selection Committee for A & E, Construction, Land Surveying
- (16) The Purchasing Sections' Organizational Chart
- (17) Bidders' List with Appropriate Procedures for Adding and Deleting Vendors
- (18) Physical Plant and Maintenance Purchasing Procedures
- (19) Competitive Sealed Bid and Request for Proposal Procedures
- (20) Bid Receipt, Security and Opening Procedures
- (21) Correction or Withdrawal of Bids
- (22) Notice of Award
- (23) Tie Bid and In-State Bidder's Preference
- (24) Bid Rejections

If any of these topics are covered adequately in other College manuals or by other written means, a reference to the location would be sufficient.

Also, the manual should contain general policy statements in regard to the following:

- (1) Ethical Standards
- (2) Retention of Records
- (3) Restrictive Specifications
- (4) Expenditure of Funds (Federal)
- (5) Professional Development
- (6) Warranty and Quality Assurance
- (7) Conflict of Interest
- (8) Sample Submission
- (9) Authorized Signature Approval

- (10) Official File of Determination and Findings
- (11) Minority Business Policy
- (12) Exempted Commodities List
- (13) A Purchase Requisition Flow Chart

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the College of Charleston in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

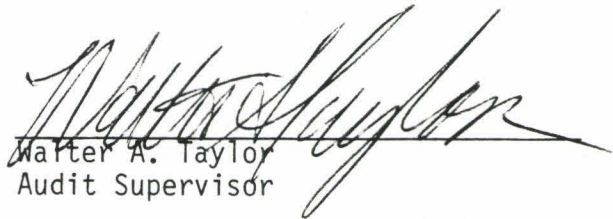
The conditions pointed out in comment III, B, 1. and 2., indicate, however, what we believe to be major variances from the intent of the Procurement Code and Budget and Control Board Regulations.

Due to these conditions found at the College of Charleston, we do not feel that we can recommend specific certification limits above the \$2,500 allowed in the Consolidated Procurement Code until assurance is given that corrective action has been taken.

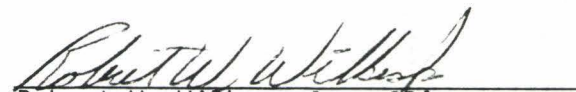
Measures should be taken to correct these conditions as well as the other matters addressed in this letter or prepare a written justification to the Materials Management Office as to why improvements will not be implemented within six (6) months following the release of this report. At that time, the Audit and Certification Section of the Materials Management Office will revisit the College.

Should appropriate steps be taken during this time to make improvements, we will consider recommending that the Budget and Control Board certify the College to process procurements in excess of the \$2,500

currently allowed in the areas of goods and services and consulting services.



Walter A. Taylor
Audit Supervisor



Robert W. Wilkes, Jr., CPA
Director, Audit and Certification

OCT 14 1983



THE COLLEGE OF CHARLESTON
CHARLESTON, SOUTH CAROLINA 29424

October 3, 1983

Office of the President

Ms. Barbara A. McMillan, Director
Contracts and Audit Management
Materials Management Office
300 Gervais Street
Columbia, SC 29201

Dear Ms. McMillian:

Attached are responses to the "Results" portion of the Audit Report on Purchasing. These comments are coded to your numbering system for ease of reference.

I feel very positive about the benefits derived from the audit and appreciate the professional demeanor and cooperation displayed by your staff. It is my desire always, and hopefully this desire has been transmitted to the faculty and staff, to honor the spirit and intent of the Consolidated Procurement Code.

Some of the recommendations have already been implemented and some are in the documentation stage however all recommendations (except IT Planning) will have been completely implemented no later than January 1, 1984 after which time I would welcome a review by your staff.

Edward M. Collins, Jr.
Edward M. Collins, Jr
President

EMCjr:JFT:ch

Attachment

I. A. Direct Expenditure Vouchers (DEV)--Concur.

We do use a DEV system now as a "purchase" method but it is outside, for the most part, the review of the Purchasing Department. This will be corrected. Your recommendation is considered a major factor in strengthening control over purchases and will be implemented.

B. Information Technology Master Plan--Concur.

Due to personnel turnover and expanded computerization, a low priority had been assigned this project. A committee has now been assembled and every effort will be made to prepare this plan for submission in the near future.

II. A. Cash Discounts--Concur.

This lost discount did happen but is not indicative of normal College performance. Procedures in Accounts Payable have been strengthened to prevent reoccurrence and the new printing of our Purchase Order contains a specific section for "Terms".

B. Student Activity Fees--Concur.

At the July 13, 1983 meeting of the Board of Trustees the method of funding for Student Activities was changed. For the first time the Board has approved a fee schedule which specifically determines the amount of contributions to be made by students to support such activities vice an allocation from academic fees. It should be noted here that our College Catalog which would normally specify this fee schedule is printed on a bi-annual basis but will contain the schedule in the next printing (Spring '84). As always our Student organizations will be subject to Institutional Policy which requires utilization of the Central Purchase Office. (Administrative Memorandum 10000.07).

III. A. Procurements without Competition--Concur.

Since these instances were direct results of the current DEV System, implementation of the controlled DEV System (IA) and strengthening of Administrative Memorandum 10000.07 (Purchases by Faculty and Staff) will provide the framework for complete control. Once implemented, an Administrative Notice will be published directing attention to the new procedures.

B.1 and B.2 Improper/Inappropriate use of Emergency Purchase (EP) Designation--Concur.

Management by "crisis" is not a particularly complementary label but one which aptly described the College and the State budget process during the audit period. Budget recissions and "rumored" recissions adversely impacted our ability to adequately plan academic/physical plant operations. "Crisis" management produces "emergency purchases".

I concur with your recommendations that College effort be devoted to planning and compliance. In fact in January 1982 several changes were implemented which had and will continue to have a direct impact on reducing emergency purchases through the planning/administration processes.

Never will we be able to eliminate all emergency purchases, but the following statistics indicate definite progress in reducing the need for emergency purchases to accomplish our mission:

<u>Report Period</u>	<u>Number E.P. Reported</u>
January - March '82	35
April - June '82	21
July - September '82 (Audit Commenced)	19
October - December '82	6
January - March '82	5
April - June '83	8
July - September '83	6

III. C. Improper Sole Source Reporting--Concur.

Of the three problems identified, two--"omission of department head signature" and "Assistant Vice President signing for "Vice President", even though they did occur, are considered minor administrative errors. The third problem, "Stress Testing Machine requiring bid", was apparently a mis-application of the sole source determination. The machine specified was unique in its capability/compatibility specifications but was available from some six, non-exclusive regional distributors of which the local distributor was least costly. Review procedures have been strengthened to prevent re-occurrence.

III. D. Construction--Concur

The equipment in question was not originally planned in the equipment requirements of the Women's Dorm. When purchased, we neglected to update the E-7. Procedures have been implemented to prevent this oversight in the future.

IV. A. Central Stores--

(1) "Eliminate slow movers"--Concur.

(2) "Establish perpetual inventory system"--Concur.

Budget permitting we will pursue a computerized perpetual inventory system.

(3) "Require use of Central Stores"--Concur.

Departmental Issues from the Book Store, other than Art Supplies and Educational Texts not stocked in Central Stores, will be limited to no more than \$10.00 unless approved in advance by the Purchasing Office. This should severely limit Book Store support of appropriated fund functions and protect the Book Store from loss of Code exemption.

(4) "Tailor Central Stores stock based on review of Bookstore issues"--Concur.

IV. B. Surplus Property Proceeds--Concur.

A special account will be established to provide an audit trail for these funds.

IV. C. Advertise property Held for Future Use--Concur.

Surplus property listing will be circulated at least quarterly.

V. Print Shop Analysis--Concur.

Effective November 15, 1983 our Print Shop will be closed and printing support will be provided through the Citadel Print Shop. We will

retain an AB Dick 360 offset press as a "High Speed Duplicating System" and will maintain production records thereon as indicated in your recommendation.

VI. Fiscal Accountability Act--Concur.

Prior to receipt of new state instructions in this area, we can and will take immediate action to report all those expenditures which can be accommodated within the existing system. Purchase Order Change Notices will be introduced into FAA reporting to reflect actual expenditures more accurately.

VII. Review of the Internal Procedures Manual--Concur.

It is true that the internal operating requirements for the Purchasing/Material Support areas, though effective, have not been well documented. Your recommendation of a more formalized documentation of authority, responsibilities and procedures is well taken and implementation will follow this outline:

1. Written, broad instructions to the Director of Purchasing which direct a service/function to be provided and the parameters/standards to utilize as the "Central Purchase Office".
2. Administrative Memorandum 10000.07 (see attachment) directing faculty and staff to utilize the "Central Purchase Office" for all procurements regardless of funding source. This Administrative Memorandum also provides authenticity for publication by the Director of Purchasing of an internal procedures manual, "Purchasing of Supplies, Services and Equipment" (POSSE).
3. Issuance and maintenance of the POSSE by the Director of Purchasing to provide current, vital instructions (non-technical) to user departments so that purchasing and materials requirements may be obtained to support the overall mission of the College.



THE COLLEGE OF CHARLESTON

CHARLESTON, SOUTH CAROLINA 29424

May 11, 1983

Office of the President

ADMINISTRATIVE MEMORANDUM 10000.07

PURCHASES BY FACULTY AND STAFF

The President, as agency head, is primarily responsible to see that all purchase actions comply with the S.C. Consolidated Procurement Code. To execute this responsibility, the centralized purchasing concept is hereby adopted by the College.

Under the centralized purchasing concept all purchases are made by or controlled through a central purchasing office which is responsible for compliance with all applicable laws and regulations. Accordingly all departments and activities of the College, regardless of their funding source, will observe the following general purchasing rules:

1. MAKE NO PURCHASE action (commitment for the College to accept and pay for supplies, services or equipment) without a Purchase Method Determination by the central purchase office. (See 4 below).
2. PLAN AHEAD--industry lead time varies widely by commodity. Last minute purchases and rush orders normally cost more. Purchases under \$2500.00 could require thirty days for approval, bid and award. Purchases over \$2500.00 could require sixty days for approval, bid and award.
3. RELAY YOUR NEEDS to the Purchasing Department via the College "REQUEST" form.
4. FOLLOW THE GUIDELINES set forth in the manual, "Purchasing of Supplies, Services and Equipment", (POSSE) promulgated by the Assistant Vice President, Purchasing.
5. DESIGNATE an individual as Support Representative to facilitate liaison with Purchasing.

The Purchasing Department under the Assistant Vice President for Purchasing will function as the Central Purchasing Office except for: (1) College Store resale items; (2) Real estate and insurance; (3) Library books; (4) Travel under Travel Authorization; (5) Employee Services (Personnel); (6) Stipends or honorariums; (7) Capital Improvements.

This cancels and supercedes Administrative Memorandum 10000.07 dated June 21, 1982.

EMCjr:DHS:ch

Distribution:

A-1,2
B-1,2,3
C-2

Edward M. Collins, Jr.
Edward M. Collins, Jr.
President

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTNAM
EXECUTIVE DIRECTOR

BARBARA A. McMILLAN
ASSISTANT DIVISION DIRECTOR

February 3, 1984

Mr. Richard J. Campbell
Materials Management Officer
800 Dutch Square Boulevard, Suite 150
Columbia, South Carolina 29210

Dear Richard:

We have returned to the College of Charleston to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 - September 15, 1982. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the College has made progress toward correcting the problem areas found, specifically improving the controls over sole source and emergency procurements.

We, therefore, recommend that the College's requested certification limits of \$10,000 per purchase commitment for goods and services, exclusive of printing equipment which must be approved by the Materials Management Office, and consulting services, be granted for a period of two (2) years. As indicated in the Scope section of our report, certification recommendations in the area of Information Technology and Construction and Related Services are being deferred until completion of statewide procedures in these areas.

Very truly yours,

Barbara A. McMillan
Barbara A. McMillan
Director of Agency Services

BAM:rms

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